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# OECD-FAO BUSINESS HANDBOOK ON DEFORESTATION AND DUE DILIGENCE

## IN AGRICULTURAL SUPPLY CHAINS

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# OECD-FAO BUSINESS HANDBOOK ON DEFORESTATION AND DUE DILIGENCE IN AGRICULTURAL SUPPLY CHAINS

The OECD-FAO Business Handbook on Deforestation and Due Diligence in Agricultural Supply Chains aims to help companies incorporate deforestation and forest degradation considerations in their supply chain due diligence and responsible sourcing efforts and adopt a holistic approach to deforestation risk and forest-positive outcomes. It builds on the risk-based due diligence framework of the OECD-FAO Guidance for Responsible Agricultural Supply Chains, the leading international framework on responsible business conduct and risk-based due diligence in the agri-food sector.

## Forests and deforestation

Healthy forests are vital to the three pillars of sustainable development: economic growth, social progress and environmental sustainability. Current rates of deforestation pose a significant threat to their survival. Furthermore, over the period 2000–2018 almost 90% of global deforestation was caused by agricultural expansion, for both cropland and livestock production.

The increase of trade and business has encouraged the growth of global supply chains. Today, an estimated one-third of agri-food exports are traded within global value chains. While the deforestation takes place at specific locations upstream in the supply chain, downstream firms and suppliers play a critical role in ensuring that the risk of deforestation is addressed within the commodity supply chains from which they source.

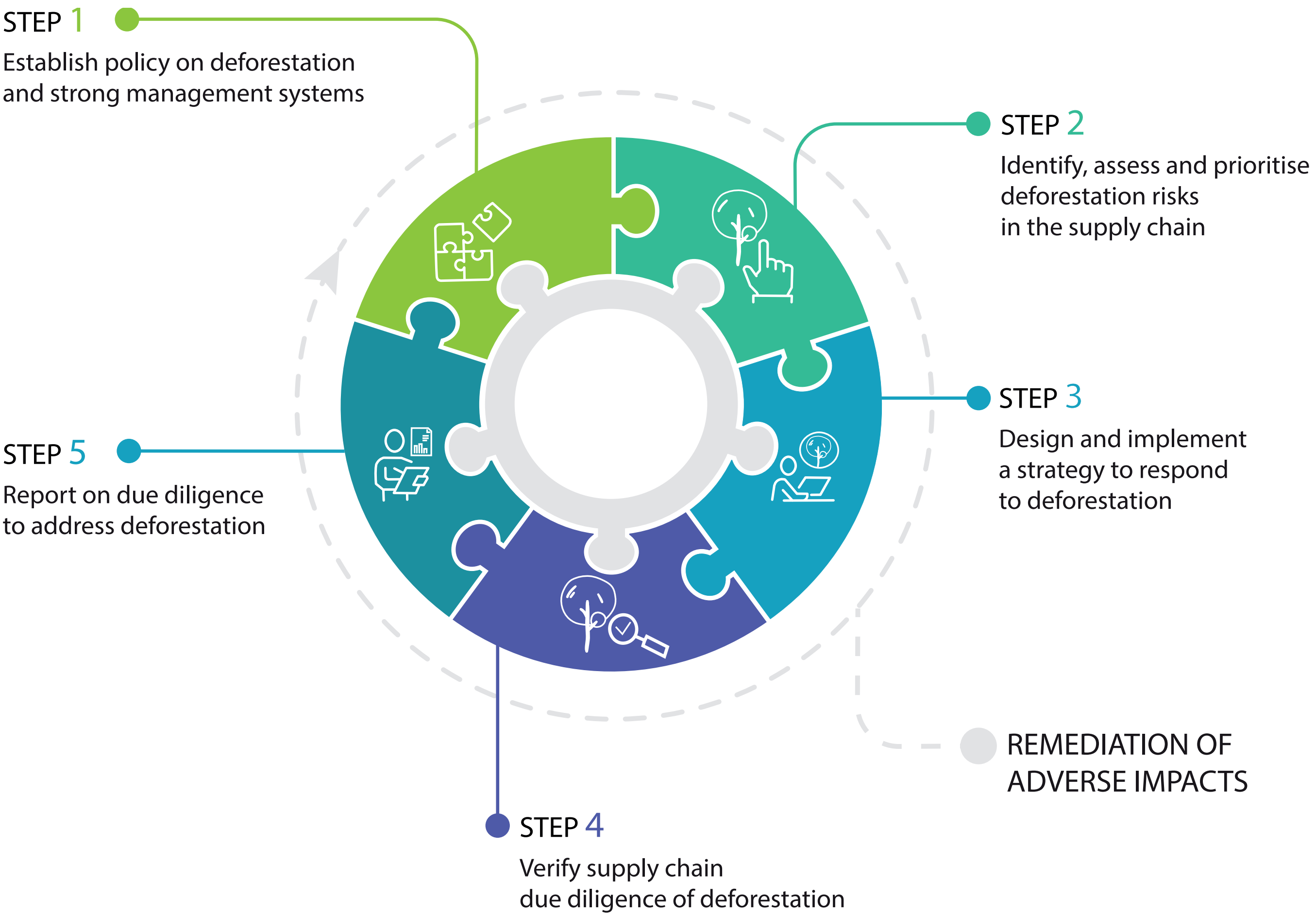
## Due diligence in agricultural supply chains

"Due diligence" refers to the process by which enterprises identify, prevent, mitigate and account for how they address the actual and potential adverse impacts of their own operations, their supply chains and other business relationships.

By making a concerted effort to reduce adverse impacts, companies can help reduce environmental impacts, including deforestation, and advance labour standards and human rights.

The risk-based due diligence framework in the OECD-FAO Guidance describes the five steps a company can take to identify, prevent and address risks of deforestation in their operations, supply chains and business relationships. Each of these steps is summarised below and described in detail in the Handbook.

## OECD-FAO Guidance for Responsible Agricultural Supply Chains – Five Step Framework for Risk Based Due Diligence


STEP 1
Establish policy on deforestation and strong management systems
STEP 2
Identify, assess and prioritise deforestation risks in the supply chain
STEP 3
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STEP 4
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STEP 5
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REMEDIATION OF ADVERSE IMPACTS

Source: Adapted from OECD-FAO Guidance for Responsible Agricultural Supply Chains (OECD-FAO, 2021).

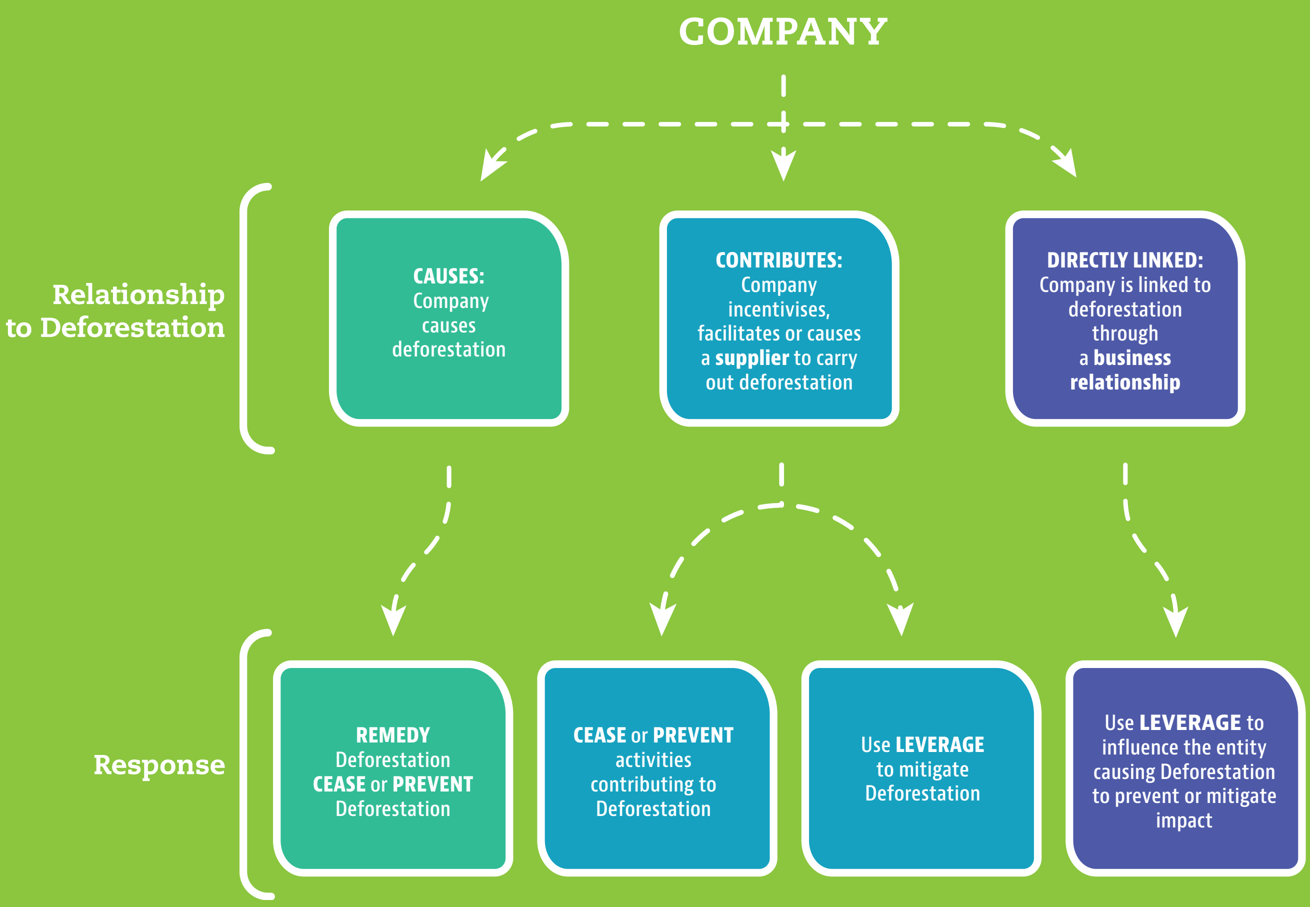
The risk-based due diligence approach described in the Handbook incorporates traceability, but extends more widely, enabling companies to adopt a holistic business and management approach to tackling deforestation, and covering a wider range of commodities, including agri-food commodities and food products. It also highlights how companies can engage meaningfully with stakeholders in each step of the due diligence process. The risk-based due diligence approach helps companies lead their responsible sourcing efforts while meeting legislation concerning transparency and environmental and social impacts in supply chains, which is becoming increasingly common.

# Understanding an enterprise's links to deforestation

An enterprise can either cause deforestation or forest degradation, contribute to it, or be directly linked to it through its business operations.

This understanding of the relationship of the enterprise to deforestation, or the risk of deforestation, is important, as it guides an enterprise on what it is broadly expected to do in response to the impact. Depending on its relationship to the impact, taking action to respond to deforestation or deforestation risks could, for example, mean taking steps to directly remedy the impact, cease activities causing the impact or prevent the potential impact, or use leverage to influence the entity causing the impact to cease, prevent or remedy it, as appropriate.

Remediation could, for example, include restoring affected persons and the environment to the situation they would be in had deforestation not occurred. Where this is not possible, companies should consider remedy in cooperation with affected communities, including compensation for deforestation or forest degradation.



**COMPANY**

**Relationship to Deforestation**

**CAUSES:** Company causes deforestation

**CONTRIBUTES:** Company incentivises, facilitates or causes a **supplier** to carry out deforestation

**DIRECTLY LINKED:** Company is linked to deforestation through a **business relationship**

**Response**

**REMEDY** Deforestation **CEASE** or **PREVENT** Deforestation

**CEASE** or **PREVENT** activities contributing to Deforestation

Use **LEVERAGE** to mitigate Deforestation

Use **LEVERAGE** to influence the entity causing Deforestation to prevent or mitigate impact

# STEPS

## STEP 1 Establish a policy on deforestation and strong management systems

**In Step 1, the company establishes strong management systems and policies to address deforestation risks and support responsible agricultural supply chains. This will be an iterative process: the policy and its implementation will need regular review in the light of changing circumstances.**

- Establish or update sustainability policies on deforestation and integrate them into company processes. This includes targets for reducing deforestation and the risk of deforestation. The policy should apply across the entire company, be approved at the most senior level and be embedded in management systems and oversight bodies.

- Communicate the policy, and incorporate expectations in engagement with suppliers and other business relationships. The policy needs to be communicated to all employees, business partners, investors and affected stakeholders, including local communities and Indigenous Peoples.

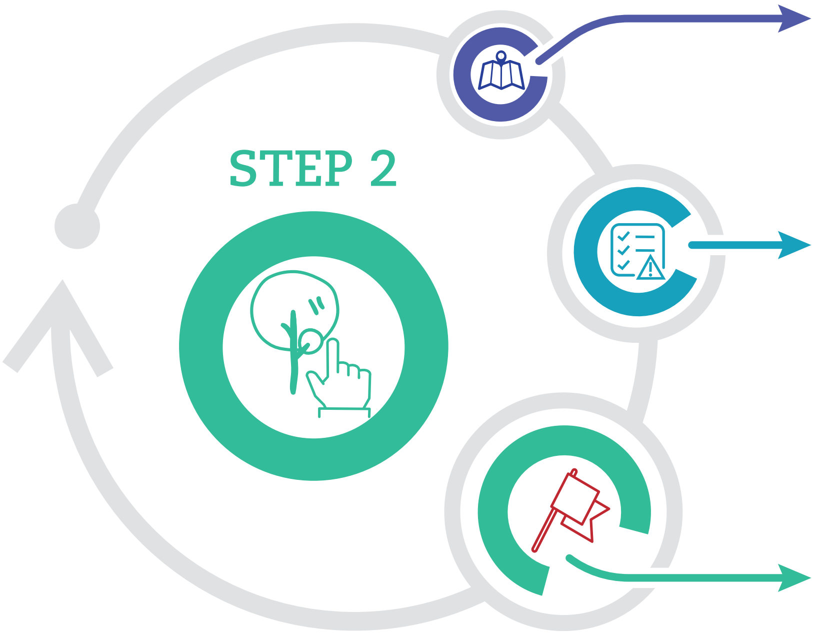
- Establish control systems along the supply chain. This includes procedures for independent and transparent reviews of policy compliance, and monitoring of the chains of custody of the commodities and products potentially associated with deforestation.

- Establish an operational-level grievance mechanism, in consultation and collaboration with relevant stakeholders, including both early warning systems for the risks of deforestation and complaints systems.

# STEP 2 Identify, assess and prioritise deforestation risks in the supply chain

**In Step 2, the company scrutinises its supply chains for the risk of deforestation. This includes mapping the supply chains, analysing the risks of associated deforestation, and establishing the company's degree of involvement in and leverage over these risks.**

- Map the supply chain – including identifying the geographical source of the products in the company's supply chains and the key actors involved in sourcing and transforming the products, including suppliers, traders and business partners. Companies should identify "control points" within each commodity supply chain to assess these entities' due diligence efforts.
- Assess the risks of deforestation associated with the products, goods, services, suppliers and geographic sourcing areas. Analysing the extent and type of forest cover in the sourcing area, deforestation trends and risks, the direct and indirect drivers of deforestation, the levels of traceability or chain of custody information available, and the complexity of the supply chain will all help in assessing this risk.
- Look out for 'red flags': These could include sourcing areas with weak standards of governance and law enforcement or ongoing conflicts. Red flags should also be triggered for business partners known to have a poor track record on deforestation or which have sourced commodities from red-flag locations or suppliers.



**Map the supply chain**

Identify the source of products and key actors. Identify "control points" to assess their due diligence efforts.

**Assess the risks of deforestation**

- **Consider** products, goods, services, suppliers and sourcing areas.
- **Analyse** extent/type of forest cover, deforestation trends and drivers of deforestation.
- **Use** traceability/chain of custody information to assess risks.

**Look out for Red Flags**

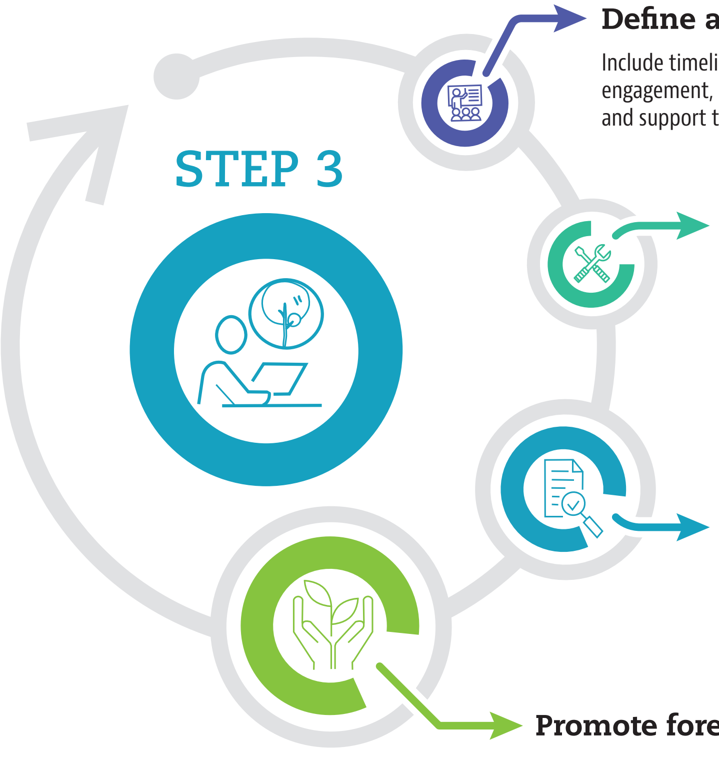
Examples:

- Areas with weak governance, law enforcement or conflict.
- Business partners/suppliers linked to deforestation.
- Suppliers sourcing from red-flag locations or red-flag suppliers.

# STEP 3 Design and implement a strategy to respond to deforestation

**In Step 3, the company designs and adopts a risk management plan in response to the deforestation risks identified in Step 2 and implements measures to reduce deforestation and the risk of deforestation.**

- Define and adopt a risk management plan, including measurable timelines, resources, responsibilities, procedures for consulting with stakeholders, monitoring and reporting systems, procedures to follow in cases of non-compliance by suppliers; and measures to support producers.
- Implement risk prevention measures, including commissioning independent surveys of source areas and business partners, reinforcing traceability and chain of custody systems, working with local communities and other stakeholders and engaging closely with business partners.
- Respond to adverse impacts, including by implementing the risk management plan and tracking its performance. As above, the company's actions to mitigate adverse impacts depend on the extent to which it causes, contributes to or is directly linked to them.
- Promote forest-positive outcomes. The Handbook sets out a wide range of measures companies can take to reduce and avoid deforestation, and contribute to positive outcomes such as protecting and restoring forest ecosystems, working with farmers, cooperatives and local communities, supporting landscape and jurisdictional initiatives to help address the root causes of deforestation, and promoting and supporting international initiatives.



**Define and adopt a risk management plan**

Include timelines, resources, responsibilities, stakeholder engagement, monitoring, procedures in non-compliance, and support to suppliers.

**Implement risk prevention measures**

Conduct independent surveys, reinforce traceability and chain of custody systems, work with communities, stakeholders and business partners.

**Respond to adverse impacts**

Actions depend on relationship to deforestation (cause, contribute, be directly linked to).

**Promote forest-positive outcomes**

Protect and restore forest ecosystems, work with farmers and local communities, support landscape and jurisdictional initiatives on deforestation.

# STEP 4 Verify supply chain due diligence is effective

**In Step 4 the company ensures that its due diligence actions are working effectively.**

- Track the implementation and effectiveness of due diligence activities. The company should verify that deforestation risks have been identified and prevented and adverse impacts have been mitigated.
- Incorporate the results of monitoring and verification into the design and functioning of the due diligence system. Even where the risk has been mitigated or prevented, the company should conduct ongoing due diligence to ensure that the risk does not recur or that new risks do not appear.
- Monitor the company's own internal control mechanisms to ensure that they are working as intended. Consult and engage with Indigenous Peoples, local communities, civil society and International Organisations to identify problems and improve due diligence processes.

# STEP 5 Report on supply chain due diligence

**In Step 5, the company reports its efforts to implement its due diligence policies and the impacts they are having in terms of fulfilling its commitments.**

- Publicly report on forest-related due diligence policies and practices, including commitments and targets, management systems, summaries of information collected (including risks identified); and assessments of progress against targets and compliance with national legislation and international standards.
- Reporting can take place in the company's annual or sustainability reports or specific reports on impacts on forests, and should be made publicly available through the company's website, social media and meetings with stakeholders and communities.

## Tips for Small and Medium-sized Enterprises (SMEs)

The Handbook features recommendations on how SMEs can tailor risk-based due diligence to address deforestation, for example:

- Adapting company policy on deforestation from sectoral initiatives or other SMEs' policies and commitments.
- Engaging in multi-stakeholder platforms on sustainable commodities that aim to minimise deforestation through collective action.
- Working with certification schemes or industry associations to share risk assessments, traceability and monitoring information.
- Using existing platforms to help identify deforestation in supply areas.
- Collaborating with other SMEs to identify and prioritise deforestation risks.

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